



**Nala Local Municipality
Annual Financial Statements
for the year ended 30 June 2018**

Nala Local Municipality

Annual Financial Statements for the year ended 30 June 2018

General Information

Legal form of entity	Local Municipality, governed by the Municipal Finance Management Act (Act No.56 of 2003)
Nature of business and principal activities	Providing municipal services and maintaining the best interests of the local community mainly in the Nala area.
Mayoral committee	
Executive Mayor	Mogoje T
Speaker	Mashiya MN
Councillors	Khati SM
	Leburu PK
	Mabaleng MP
	Mabaso MK
	Mafojane PW
	Marumule MS
	Mohloare TA
	Mokete XE
	Molutsi TL
	Moshane ZM
	Mtombeni J
	Ncheche MM (deceased)
	Ngece M
	Ntseki ML
	Sebate KE
	Tau RT
	Nanyane LJ
	Reed D
	Makunye AM
	Jika NE
	Makhooe NE
	Botma HJ
Grading of local authority	Nala Local Municipality is a grade 3 Local Authority in terms of item IV of the Government Notice R999 of 2 October 2001, published in terms of the Remuneration of Public Office Bearers Act, 1998
Capacity of local authority	Medium Capacity Municipality
Municipal demarcation code	FS185
Accounting Officer	Mokomela BC
Chief Finance Officer (CFO)	Busakwe S
Registered office	Municipal Offices 8 Preller Street Bothaville 9660
Postal address	Private Bag X15 Bothaville 9660
Bankers	First National Bank

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General Information

External auditors

Auditor-General of South Africa

Attorneys

Podbielski Incorporated

Finger Attorneys

Nala Local Municipality

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
HDF	Housing Development Fund
GRAP	Generally Recognised Accounting Practice
MEC	Member of the Executive Committee
IAS	International Accounting Standards
VAT	Value Added Tax
UIF	Unemployment Insurance Fund
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
PAYE	Pay As You Earn (Employee's tax)

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's proposed budget for the year to 30 June 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements are prepared on the basis that the municipality is a going concern.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, he is supported by the municipality's finance department.

The annual financial statements set out on pages 5 to 94, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed by:

Mokomela BC
Accounting Officer

Nala Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

Figures in Rand	Notes	2018	2017 Restated*
Assets			
Current Assets			
Inventories	2	1 301 759	1 625 682
Receivables from exchange transactions	3	94 652 913	78 225 678
Receivables from non-exchange transactions	4	1 412 712	2 044 327
VAT receivable	5	43 586 960	38 901 766
Cash and cash equivalents	6	1 852 228	8 270 644
		142 806 572	129 068 097
Non-Current Assets			
Investment property	7	581 217 601	581 282 266
Property, plant and equipment	8	1 206 427 980	1 213 033 171
Intangible assets	9	186 961	258 870
Other financial assets	10	111 717	121 713
		1 787 944 259	1 794 696 020
Total Assets		1 930 750 831	1 923 764 117
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	421 535 446	377 445 232
Consumer deposits	12	2 698 880	2 433 559
Employee benefit obligation	13	842 000	1 121 000
Unspent conditional grants and receipts	14	1 252 788	4 852 099
		426 329 114	385 851 890
Non-Current Liabilities			
Employee benefit obligation	13	8 063 000	10 369 000
Provisions	15	20 246 065	18 783 891
		28 309 065	29 152 891
Total Liabilities		454 638 179	415 004 781
Net Assets		1 476 112 652	1 508 759 336
Accumulated surplus		1 476 112 652	1 508 759 336

* See Note 36

Nala Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

Figures in Rand	Notes	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	166 426 160	160 759 339
Rental of facilities		1 340 969	504 413
Interest received - consumer		23 388 189	23 662 860
Interest received - investment	18	1 079 324	1 856 360
Dividends received	18	6 497	4 751
Discount received		4 530	47 243
Debt forgiven		-	32 212 971
Other income	19	1 771 491	2 231 558
Total revenue from exchange transactions		194 017 160	221 279 495
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	21 196 962	19 944 537
Fines, Penalties and Forfeits		44 331	180 649
Transfer revenue			
Government grants & subsidies	21	157 426 216	166 910 755
Total revenue from non-exchange transactions		178 667 509	187 035 941
Total revenue	16	372 684 669	408 315 436
Expenditure			
Employee related costs	22	(135 679 954)	(133 252 212)
Remuneration of councillors	23	(8 443 579)	(7 480 200)
Depreciation and amortisation	24	(49 480 598)	(50 077 150)
Impairment loss	25	(55 129 317)	(91 369 083)
Finance costs	26	(7 331 621)	(27 895 393)
Repairs and maintenance		(3 856 374)	(25 268 961)
Bulk purchases	27	(111 953 140)	(113 730 101)
Contracted services	28	(11 815 307)	(10 421 265)
General Expenses	30	(25 017 698)	(25 634 336)
Total expenditure		(408 707 588)	(485 128 701)
Operating deficit		(36 022 919)	(76 813 265)
Fair value adjustments on other financial assets		(9 996)	-
Actuarial gains/losses	13&15	3 444 327	719 246
Loss on property plant equipment written off		(58 100)	(716 463)
		3 376 231	2 783
Deficit for the year		(32 646 688)	(76 810 482)

* See Note 36

Nala Local Municipality

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2016	1 585 569 818	1 585 569 818
Changes in net assets		
Restated deficit for the year	(76 810 482)	(76 810 482)
Total changes	(76 810 482)	(76 810 482)
Opening balance as previously reported	1 509 953 095	1 509 953 095
Adjustments		
Prior year adjustments	(1 193 755)	(1 193 755)
Restated* Balance at 01 July 2017 as restated	1 508 759 340	1 508 759 340
Changes in net assets		
Deficit for the year	(32 646 688)	(32 646 688)
Total changes	(32 646 688)	(32 646 688)
Balance at 30 June 2018	1 476 112 652	1 476 112 652

* See Note 36

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Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

Figures in Rand	Notes	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Taxation		18 042 626	21 212 629
Sale of goods and services		98 477 204	78 859 692
Grants		152 731 591	173 454 884
Interest income		24 467 513	25 519 220
Dividends received		6 497	4 751
		293 725 431	299 051 176
Payments			
Employee costs		(142 224 144)	(138 469 164)
Suppliers and other		(107 791 153)	(101 847 287)
Finance costs		(7 331 621)	(27 895 393)
		(257 346 918)	(268 211 844)
Net cash flows from operating activities	31	36 378 513	30 839 332
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(42 796 929)	(23 267 318)
Proceeds from sale of financial assets		-	(1 197)
Net cash flows from investing activities		(42 796 929)	(23 268 515)
Cash flows from financing activities			
Repayment of other financial liabilities		-	(10 480 546)
Net cash flows from financing activities		-	(10 480 546)
Net increase/(decrease) in cash and cash equivalents		(6 418 416)	(2 909 729)
Cash and cash equivalents at the beginning of the year		8 270 644	11 180 373
Cash and cash equivalents at the end of the year	6	1 852 228	8 270 644

* See Note 36

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Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	163 159 327	-	163 159 327	166 426 160	3 266 833	Note 45
Rental of facilities and equipment	585 613	-	585 613	1 340 969	755 356	Note 45
Interest received - consumer	22 729 456	-	22 729 456	23 388 189	658 733	Note 45
Discount received	6 459	-	6 459	4 530	(1 929)	Note 45
Other income	1 834 159	-	1 834 159	1 771 491	(62 668)	Note 45
Interest received - investment	1 287 922	-	1 287 922	1 079 324	(208 598)	Note 45
Dividends received	-	-	-	6 497	6 497	Note 45

Total revenue from exchange transactions	189 602 936	-	189 602 936	194 017 160	4 414 224	
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Revenue from non-exchange transactions

Taxation revenue

Property rates	21 399 727	-	21 399 727	21 196 962	(202 765)	Note 45
Fines, Penalties and Forfeits	46 186	-	46 186	44 331	(1 855)	Note 45

Transfer revenue

Government grants & subsidies	152 153 778	-	152 153 778	157 426 216	5 272 438	Note 45
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Total revenue from non-exchange transactions	173 599 691	-	173 599 691	178 667 509	5 067 818	
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Total revenue	363 202 627	-	363 202 627	372 684 669	9 482 042	
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Expenditure

Personnel	(136 666 921)	-	(136 666 921)	(135 679 954)	986 967	Note 45
Remuneration of councilors	(8 463 148)	-	(8 463 148)	(8 443 579)	19 569	Note 45
Depreciation and amortisation	(61 395 992)	-	(61 395 992)	(49 480 598)	11 915 394	Note 45
Impairment loss/ Reversal of impairments	(30 000 000)	-	(30 000 000)	(55 129 317)	(25 129 317)	Note 45
Finance costs	(14 311 590)	-	(14 311 590)	(7 331 621)	6 979 969	Note 45
Repairs and maintenance	(7 648 241)	-	(7 648 241)	(3 856 374)	3 791 867	Note 45
Bulk purchases	(111 423 899)	-	(111 423 899)	(111 953 140)	(529 241)	Note 45
Contracted Services	(12 594 615)	-	(12 594 615)	(11 815 307)	779 308	Note 45
General Expenses	(38 490 746)	-	(38 490 746)	(25 017 698)	13 473 048	Note 45

Total expenditure	(420 995 152)	-	(420 995 152)	(408 707 588)	12 287 564	
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Operating deficit	(57 792 525)	-	(57 792 525)	(36 022 919)	21 769 606	
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Fair value adjustments	-	-	-	(9 996)	(9 996)	Note 45
Actuarial gains/losses	-	-	-	3 444 327	3 444 327	Note 45
Loss on non-current assets	-	-	-	(58 100)	(58 100)	Note 45

	-	-	-	3 376 231	3 376 231	
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Deficit before taxation	(57 792 525)	-	(57 792 525)	(32 646 688)	25 145 837	
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Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(57 792 525)	-	(57 792 525)	(32 646 688)	25 145 837	
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Nala Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

All figures have been rounded to the nearest Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgment is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 13.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Nala Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.3 Investment property (continued)

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	indefinite

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is unrecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Nala Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.4 Property, plant and equipment (continued)

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are unrecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Useful life
Land	Straight line	Indefinite
Buildings	Straight line	10 - 60 years
Motor vehicles	Straight line	5 - 15 years
Infrastructure		
- Electricity	Straight line	5 - 60 years
- Roads	Straight line	10 - 80 years
- Structures	Straight line	10 - 60 years
- Stormwater drainage	Straight line	50 - 60 years
- Sewer reticulation	Straight line	5 - 10 years
- Waste water treatment works	Straight line	15 - 80 years
- Water reticulation	Straight line	20 - 60 years
Other property, plant and equipment		
- Furniture and Fittings	Straight line	5 - 7 years
- IT Equipment	Straight line	6 - 7 years
- Landfill sites	Straight line	12 - 13 years
- Office equipment	Straight line	4 - 7 years
- Plant and machinery	Straight line	4 - 7 years
- Vehicles	Straight line	7 - 15 years
- Airports	Straight line	5 - 60 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are unrecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is unrecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

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Accounting Policies

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

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1.6 Intangible assets (continued)

Item	Useful life
Computer software, other	4 years

Intangible assets are unrecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is unrecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment.

A concessionary loan is a loan granted to or received by an municipality on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an municipality's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument or group of financial instruments, the municipality shall use the contractual cash flows over the full contractual term of the financial instrument or group of financial instruments.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
 - receive cash or another financial asset from another municipality; or
 - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

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Accounting Policies

1.7 Financial instruments (continued)

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

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1.7 Financial instruments (continued)

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Other financial asset	Financial asset measured at fair value
Cash and cash equivalents	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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Accounting Policies

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is unrecognised or impaired, or through the amortisation process.

Impairment of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Nala Local Municipality

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Accounting Policies

1.7 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

1.8 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

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Accounting Policies

1.8 Statutory receivables (continued)

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions.

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).

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Accounting Policies

1.8 Statutory receivables (continued)

- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
 - derecognise the receivable; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Nala Local Municipality

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Accounting Policies

1.9 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

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Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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1.13 Employee benefits

Employee benefits are all forms of consideration given by a municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- a municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from a municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

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Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programs) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Multi-employer plans and/or State plans and/or Composite social security programs

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programs as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality account for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, a municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Nala Local Municipality

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Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;

Nala Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.13 Employee benefits (continued)

- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Nala Local Municipality

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Accounting Policies

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Nala Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.13 Employee benefits (continued)

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

Contingencies are disclosed in note 34.

Nala Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.14 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Nala Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Nala Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes (Property rates for municipalities)

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Nala Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

Concessionary loans received

A concessionary loan is a loan granted to or received by an property, plant and equipment on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the cash flow statement recognises revenue as and when it satisfies the conditions of the loan agreement.

1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Nala Local Municipality

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Accounting Policies

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant program/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisation's (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Nala Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.24 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.25 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.26 Value-Added Tax

The municipality is registered with the South Africa Revenue Services (SARS) for value added tax (VAT) on the payments basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991)

1.27 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credited against accumulated surplus when retrospective adjustments are made.

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Figures in Rand	2018	2017
2. Inventories		
Spare parts	1 272 434	1 597 752
Water	29 325	27 930
	1 301 759	1 625 682

Inventories that were recognised as stores issues during the year amounted to R 2 354 980 (2017: R 3 458 079), of which a portion was capitalised.

Inventory pledged as security

No inventory was pledged as security for any liabilities.

3. Receivables from exchange transactions

Consumer debtors	553 312 431	482 345 948
Other receivables	12 571 540	10 501 009
Recoverable fruitless and wasteful expenditure	959 632	959 632
Overpayment to councillors	1 477 599	1 492 716
Less: Provision for bad debts on consumer debtors	(472 769 912)	(416 214 516)
Less: Provision for bad debts on other receivables	(898 377)	(859 111)
	94 652 913	78 225 678

Included in the amount of overpayment to councillors is amounts overpaid of R 23 457 to the Municipal Manager and R 33 104 to the Chief Financial Officer. These amounts were repaid after year end.

Trade and other receivables pledged as security

None of the receivables from non-exchange transactions was pledged as security by the municipality during the financial year.

Nala Local Municipality

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Figures in Rand	2018	2017
3. Receivables from exchange transactions (continued)		
Consumer debtors from exchange transactions		
The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.		
Consumer debtors		
Gross balances		
Electricity	72 139 318	73 509 503
Water	277 499 366	237 516 720
Sewerage	116 500 390	72 647 581
Refuse	87 173 357	98 672 144
	553 312 431	482 345 948
Less: Allowance for impairment		
Electricity	(50 123 170)	(51 348 056)
Water	(248 950 712)	(215 481 019)
Sewerage	(98 231 881)	(63 920 641)
Refuse	(75 464 149)	(85 464 800)
	(472 769 912)	(416 214 516)
Net balance		
Electricity	22 016 148	22 161 447
Water	28 548 654	22 035 701
Sewerage	18 268 509	8 726 940
Refuse	11 709 208	13 207 344
	80 542 519	66 131 432

Nala Local Municipality

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3. Receivables from exchange transactions (continued)

Consumer debtor ageing

The ageing of amounts is as follows:

2018	Exchange transactions	Non exchange transactions	Total
Current (not past due)	31 131 482	2 070 815	33 202 297
1 month past due	11 805 937	931 111	12 737 048
2 months past due	12 089 002	771 284	12 860 286
3 months past due	498 286 010	29 906 141	528 192 151
	553 312 431	33 679 351	586 991 782

2017	Exchange transactions	Non exchange transactions	Total
Current (not past due)	48 274 721	2 361 132	50 635 853
1 month past due	10 359 929	664 453	11 024 382
2 months past due	9 390 447	813 311	10 203 758
3 months past due	414 320 851	26 641 787	440 962 638
	482 345 948	30 480 683	512 826 631

Exchange transactions	553 312 431	482 345 948
Non exchange transactions	33 679 351	30 480 683
	586 991 782	512 826 631

The above mentioned ageing included consumer debtors from exchange R553 312 431 (2017 : R 482 345 948) and non exchange consumer debtors R33 679 351 (2017 : R30 480 683) stating the gross balances outstanding for consumer debtors. Refer to Note 4 for non exchange Consumer debtors - Rates

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(416 214 516)	(335 013 833)
Provision for impairment	(56 555 396)	(82 729 056)
Adjustment between exchange and non exchange - Interest	-	1 528 373
	(472 769 912)	(416 214 516)

4. Consumer and other receivables from non-exchange transactions

Government grants and subsidies	1 095 314	-
Consumer debtors - Rates	33 679 350	30 480 683
Less: Provision for bad debts on consumer debtors	(33 361 952)	(28 436 356)
	1 412 712	2 044 327

Pledged as security

None of the receivables from non-exchange transactions was pledged as security by the municipality during the financial year.

Nala Local Municipality

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4. Consumer and other receivables from non-exchange transactions (continued)		
Consumer debtors - Rates		
The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings or to historical information.		
Consumer and other receivables from non-exchange transactions		
Summary of receivables by customer classification		
Household consumers	28 110 074	23 798 267
Industrial and commercial consumers	4 940 006	2 276 692
National and provincial government	629 270	4 405 724
	33 679 350	30 480 683
Summary of provision for bad debts by customer classification		
Household consumers	(29 386 714)	(23 950 906)
Industrial and commercial consumers	(1 549 771)	(1 141 223)
National and provincial government	(2 425 467)	(3 344 227)
	(33 361 952)	(28 436 356)
Gross balances		
Consumer debtors from non-exchange transactions	317 398	2 044 327
Reconciliation of provision for impairment of receivables from non-exchange transactions		
Opening balance	(28 436 356)	(20 137 455)
Provision for impairment	(4 925 596)	(6 770 536)
Interest portion part of the provision for impairment	-	(1 528 365)
	(33 361 952)	(28 436 356)
5. VAT receivable		
VAT	43 586 960	38 901 766
6. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Bank balances	1 233 203	1 791 800
Call account	619 025	6 478 844
	1 852 228	8 270 644

No cash and cash equivalents was pledged as security for liabilities.

The municipality have a guarantee arrangement of R 39 800 with Eskom which expires on 31 December 2025.

Nala Local Municipality

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6. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
FNB - Current Account 62025990765	1 363 729	1 669 159	371 002	1 233 203	1 791 800	271 409
FNB - Money Market 62026222521	119 673	80 078	5 361 066	119 673	80 078	5 361 066
FNB - Money Market 62002839506	435 655	6 338 372	415 214	435 655	6 338 372	415 214
FNB - Money Market 62373464503	63 697	60 394	5 132 684	63 697	60 394	5 132 684
Total	1 982 754	8 148 003	11 279 966	1 852 228	8 270 644	11 180 373

Nala Local Municipality

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Figures in Rand	2018	2017
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7. Investment property

	2018			2017		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	581 453 764	(236 163)	581 217 601	581 453 764	(171 498)	581 282 266

Reconciliation of investment property - 2018

	Opening balance	Depreciation	Total
Investment property	581 282 266	(64 665)	581 217 601

Reconciliation of investment property - 2017

	Opening balance	Depreciation	Total
Investment property	581 346 932	(64 666)	581 282 266

Pledged as security

No investment property were pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

8. Property, plant and equipment

	2018			2017		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	197 940 807	-	197 940 807	197 940 807	-	197 940 807
Buildings	140 543 920	(77 634 755)	62 909 165	136 684 903	(75 134 589)	61 550 314
Motor vehicles	11 802 413	(2 965 783)	8 836 630	11 802 413	(2 527 186)	9 275 227
Infrastructure	1 659 272 481	(725 439 623)	933 832 858	1 620 875 567	(679 994 743)	940 880 824
Other property, plant	10 730 715	(7 822 195)	2 908 520	10 308 353	(6 922 354)	3 385 999
Total	2 020 290 336	(813 862 356)	1 206 427 980	1 977 612 043	(764 578 872)	1 213 033 171

Nala Local Municipality

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8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Write-off @ carrying value	Transfers	Depreciation	Total
Land	197 940 807	-	-	-	-	197 940 807
Buildings	61 550 314	3 859 018	-	-	(2 500 167)	62 909 165
Motor vehicles	9 275 227	-	-	-	(438 597)	8 836 630
Infrastructure	940 880 824	38 342 179	(27 321)	127 592	(45 490 416)	933 832 858
Other property, plant and equipment	3 385 999	595 732	(30 778)	(127 592)	(914 841)	2 908 520
	1 213 033 171	42 796 929	(58 099)	-	(49 344 021)	1 206 427 980

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Impairment	Write-off @ carrying value	Transfers	Depreciation	Total
Land	197 940 807	-	-	-	-	-	197 940 807
Buildings	64 368 528	-	-	(262 998)	-	(2 555 216)	61 550 314
Motor vehicles	9 720 473	-	3 380	-	-	(448 626)	9 275 227
Infrastructure	964 426 348	22 243 492	(227 478)	(446 820)	416 401	(45 531 119)	940 880 824
Other property, plant and equipment	4 025 585	1 023 831	(29 820)	(6 645)	(416 401)	(1 210 551)	3 385 999
	1 240 481 741	23 267 323	(253 918)	(716 463)	-	(49 745 512)	1 213 033 171

Pledged as security

No property, plant and equipment were pledged as security.

Nala Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
8. Property, plant and equipment (continued)		
Reconciliation of Work-in-Progress		
	Included within Infrastructure 2018	Included within Infrastructure 2017
Opening balance	26 998 673	28 244 699
Additions/capital expenditure	42 796 929	23 267 323
Transferred to completed items	(49 160 386)	(24 513 349)
	20 635 216	26 998 673

Repairs and maintenance expenditure incurred on capital assets during the year amounted to R 3 876 842 (2017: R 20 711 960).

Included in the work in progress amount is a project amounting to R 1 566 182 for which no movement was shown for the last 3 years as final completion await action from third party.

Included in the work in progress amount is projects amounting to R 1 253 313 for which no movement was shown for the last 3 years. The WIP will be investigated after year end for a possible write off.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

9. Intangible assets

	2018			2017		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 151 335	(1 964 374)	186 961	2 151 335	(1 892 465)	258 870

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	258 870	(71 909)	186 961

Reconciliation of intangible assets - 2017

	Opening balance	Amortisation	Total
Computer software	525 672	(266 802)	258 870

Pledged as security

No intangible assets were pledged as security for liabilities.

Nala Local Municipality

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Figures in Rand	2018	2017
10. Other financial assets		
Designated at fair value		
Unlisted shares	111 717	121 713
Unlisted shares consist of 8 236 (2017 : 8 236) equity shares values at R4.50 (2017:R5.80) each in Senwes Belleggings Limited and 7 110 (2017 : 7 110) equity shares in Senwes Limited valued at R10.50 (2017 : R10.40) each.		
Non-current assets		
Designated at fair value	111 717	121 713
Financial assets at fair value		
Fair value hierarchy of financial assets at fair value		
Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.		
Level 1		
Senwes Belleggings	37 062	47 769
Senwes Limited	74 655	73 944
	111 717	121 713

11. Payables from exchange transactions

Trade payables	377 473 647	344 410 870
Payments received in advanced	6 378 333	5 342 632
Accrued leave pay	15 967 638	15 564 014
Accrued bonus	3 043 367	2 996 046
Other creditors	15 418 209	6 554 357
Retentions	3 254 252	2 577 313
	421 535 446	377 445 232

Discounting was performed on trade payables where interest on creditors was not accrued for. An assumption of prime +1% interest rate was used in the calculation on discounting the trade payables and the following interest amounts of R37 523 (2017:R40 790).

12. Consumer deposits

Electricity and water	2 698 880	2 433 559
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Consumer deposits are raised when a services account is opened and is refunded to the consumer after the account is closed.

There are no guarantees held for electricity and water deposits.

Nala Local Municipality

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Figures in Rand	2018	2017
13. Employee benefit obligations		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(11 490 000)	(11 998 000)
Changes in the present value of the defined benefit obligation	1 029 652	1 010 567
Net movement recognised in the statement of financial performance	1 555 348	(502 567)
	(8 905 000)	(11 490 000)
Non-current liabilities	(8 063 000)	(10 369 000)
Current liabilities	(842 000)	(1 121 000)
	(8 905 000)	(11 490 000)

One ZAQ Consultants and Actuaries has been briefed to perform an actuarial valuation of Nala Municipality's Post-employment Medical Aid Benefits Liability as at 30 June 2018 for the purpose of reporting under the Statement of Generally Recognised Accounting Practice 25 (GRAP25) of the Accounting Standards Board (ASB) Directive 5. the valuation was performed by Niel Fourie B.Comm.(CERA) (FASSA) in my capacity as a Fellow of the Actuarial Society of South Africa and as an employee of ZAQEN Actuaries (Pty) Ltd.

The previous year's actuarial valuation was also conducted by ZAQ Consultants and Actuaries and the valuation was performed by Niel Fourie B.Comm.(CERA) (FASSA) in my capacity as a Fellow of the Actuarial Society of South Africa and as an employee of ZAQEN Actuaries (Pty) Ltd.

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(11 490 000)	(11 998 000)
Benefits paid	1 029 652	1 010 567
Net movement recognised in the statement of financial performance	1 555 348	(502 567)
	(8 905 000)	(11 490 000)

Net movement recognised in the statement of financial performance

Interest cost	(1 121 000)	(1 055 000)
Actuarial gains	2 676 348	552 433
	1 555 348	(502 567)

Calculation of actuarial gains and losses

Actuarial gains – Obligation	2 676 348	552 433
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Key assumptions used

Assumptions used at the reporting date:

In estimating the liability for post-employment medical aid benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

APN 301 states that the assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

Financial Variables

The two most important financial variables used in our valuation are the discount- and medical aid inflation rates. We have assumed the following values for these variables:

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13. Employee benefit obligations (continued)

Financial Variable Assumed	2018 Valuation	2017 Valuation
Discount Rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between curves	Difference between curves
Medical Aid Contribution Inflation	CPI+1	CPI+1%
Net Effective Discount Rate	Yield curve based nominal and yield	Yield curve based nominal and yield

Discount Rate

We used the nominal and real zero curves as at 30 June 2018 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

Medical Aid Inflation

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and Dependants

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

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Figures in Rand	2018	2017
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13. Employee benefit obligations (continued)

Withdrawal

A table setting out the assumed rates of withdrawal from service is set out below:

As at the valuation date, the medical aid liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. Therefore no assets was considered as part of the valuation.

A table setting out the assumed rates of withdrawal from service is set out below:

Age Band	Withdrawal Rate Males	Withdrawal Rate Females
20 - 24	16%	24%
25 - 29	12%	18%
30 - 34	10%	15%
35 - 39	8%	10%
40 - 44	6%	6%
45 - 49	4%	4%
50 - 54	2%	2%
55 - 59	1%	1%
60 +	0%	0%

Current (In Service) Members

The table below provides a summary of details for current employees.

	Male	Female	Total
Number of active employees	2	0	2
Subsidy weighted average age	66	N/A	66
Subsidy weighted average past service	21,9	N/A	21,9
Number of spouses	N/A	N/A	N/A
Average monthly subsidy payable during retirement	R 1 630	N/A	R 1 630

Continuation Members (Pensioners)

The table below provides a summary of details for continuation members.

	Male	Female	Total
Number of continuation members	7	7	14
Subsidy weighted average age	79,6	73,4	76,7
Average monthly subsidy	R 5 250	R 4 570	R 4 910

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	(1 109 790)	(1 132 210)
Effect on defined benefit obligation	(8 815 950)	(8 994 050)

Amounts for the current and previous four years are as follows:

	2018 R	2017 R	2016 R	2015 R	2014 R
Defined benefit obligation	(8 905 000)	(11 490 000)	(11 998 000)	(25 536 000)	(41 373 000)
Surplus/(deficit)	(8 905 000)	(11 490 000)	(11 998 000)	(5 535 998)	(41 373 600)
Experience adjustments on plan liabilities	13 538 000	13 538 000	13 538 000	15 837 000	(1 195 000)

Nala Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
13. Employee benefit obligations (continued)		
Defined contribution plan asset		
As at the valuation date, the medical aid liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. Therefore no assets was considered as part of the valuation.		
14. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Unspent grants	1 252 788	4 852 099
Movement during the year		
Balance at the beginning of the year	4 852 099	1 646 258
Additions during the year	152 731 591	173 454 885
Income recognition during the year	(157 426 216)	(166 910 756)
Deferred revenue	1 095 314	(3 338 288)
	1 252 788	4 852 099
Reconciliation of grants from National/Provincial Government.		
Integrated National Electrification Program (INEP) Grant		
Additions during the year	5 000 000	7 250 000
Income recognition - Capital	(4 425 623)	(7 250 000)
	574 377	-
Municipal Infrastructure Grant - Capital		
Balance unspent at beginning of year	4 173 688	374 079
Additions during the year	38 067 050	36 884 050
Income recognition during the year	(42 570 052)	(29 372 153)
Deferred Revenue*	1 095 314	(374 000)
National treasury offset*	(766 000)	(3 338 288)
	-	4 173 688

* The amount of R 1 095 314 was received on 13 July 2018 from MIG.

*National Treasury has added an amount of R766 000 that is receivable by the Municipality and deducted R766 000 from the equitable share due to Nala Municipality accelerated spending of MIG monies the for 2017/18 financial period

Nala Local Municipality

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Figures in Rand	2018	2017
14. Unspent conditional grants and receipts (continued)		
Financial Management Grant (FMG)		
Additions during the year	2 345 000	2 010 000
Conditions met - transferred to revenue	(2 345 000)	(2 010 000)
	-	-
Municipal System Improvement Grant (MSIG)		
Additions during the year	-	930 000
Conditions met - transferred to revenue	-	(930 000)
	-	-
Extended Public Works Program Grant (EPWP)		
Additions during the year	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 000 000)
	-	-

Municipal Infrastructure Grant (MIG) - Capital - Grants is used to fund the infrastructure project/capital projects of the municipality

Financial Management Grant - Grant is used to fund to assist to pay the financial systems expense of the municipality and the improvement of financial systems.

Municipal System Improvement Grant - Grant is to assist to pay the expenses that relates to addressing the audit action plan issues and the funding of municipal interns.

Integrated National Electrification Program Grant (INEP) - Grant is used to fund the electrification of new townships establishments.

Extended Public Works Program Grant (EPWP) - Grant is used to fund social uplifting projects.

South African National Energy Development Institute (SANEDI) - The Grant is used to fund the installation of smart meters and energy efficiency

Municipal Infrastructure Grant (MIG) - Operational - Grants is used to fund the project management unit of the municipality

Energy Efficiency and Demand Site Management (EEDSM) - used to fund the implementation of the retrofit "Energy Efficient Lighting Technologies" in the Municipal buildings, street and traffic lighting infrastructure and the efficient technologies in the water treatment and pump stations.

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15. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Current Service Cost	Paid during the year	Interest Cost	Actuarial Loss / (Gain)	Total
Environmental rehabilitation	9 770 891	-	-	888 174	-	10 659 065
Long Service Bonus Awards	9 013 000	893 000	(451 021)	900 000	(767 979)	9 587 000
	18 783 891	893 000	(451 021)	1 788 174	(767 979)	20 246 065

Reconciliation of provisions - 2017

	Opening Balance	Current Service Cost	Paid during the year	Interest Cost	Actuarial Loss / (Gain)	Total
Environmental rehabilitation	8 956 725	-	-	814 166	-	9 770 891
Long Service Bonus Awards	8 835 000	923 000	(1 458 186)	880 000	(166 814)	9 013 000
	17 791 725	923 000	(1 458 186)	1 694 166	(166 814)	18 783 891

Environmental rehabilitation provision

The municipality engages in waste disposal operations from residential and business areas within the following areas:

- Bothaville
- Wesselsbron

In terms of licensing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs to restore the sites at the end of its useful life. The landfill sites are not licensed and the municipality could incur penalties for not being licensed.

The life spans for the individual landfill sites were calculated based on available air space and cover material available on the estimations of Nala Local Municipality as well as a survey of each landfill site by a qualify surveyor.

The estimation of cost of capping and remediation is highly sensitive to many factors, including:

- where the landfill site pose a risk to the environment more stringent capping and remediation measures may be required
- changing legislation may alter the minimum requirements for capping and remediation
- availability of capping materials
- site specific requirements may vary, as well as proposed end-use of the site
- non-inflation linked costs like fuel
- the condition of infrastructure on site at the time of closure, for instance fencing, and storm water management

The average predicated inflation rate is 6 % per year for the period 1 July 2015 to 30 June 2023.

In terms of GRAP 19, provisions should be evaluated at each year-end to reflect the best estimate at that date of the provision.

Key assumptions used

Discount rate 2018:	Yield Curve
Discount rate (2017):	Yield Curve
CPI 2018:	Difference between nominal and real yield curve
CPI (2017):	Difference between nominal and real yield curve

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15. Provisions (continued)

Long service awards provision

ZAQ Consultants and Actuaries has been briefed to perform an actuarial valuation of Nala Municipality's ('Nala')s long service bonus awards liability at 30 June 2016 for the purpose of reporting under the Statement of Generally Recognised Accounting Practice 25 (GRAP25) of the Accounting Standards Board (ASB) Directive 5, which is based on the International Accounting Standard 19 (IAS19). The valuation was performed by Niel Fourie B.Comm. (CERA) (FASSA) in my capacity as a Fellow of the Actuarial Society of South Africa and as an employee of ZAQEN Actuaries (Pty) Ltd

A previous actuarial valuation was performed by One Pangaea Financial as at 30 June 2015 to disclose on the long service bonus awards in Nala's financial statements.

Key assumptions used

The assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

Financial Variables

The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:

Financial Variable Assumed	2018 Valuation	2017 Valuation
Discount Rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	Difference between nominal and real yield curve
Normal Salary Increase Rate	Equal to CPI+1%	Equal to CPI+1%
Net Effective Discount Rate	Yield Curve Based	Yield Curve Based

Discount Rate

We use the nominal and real zero curves as at 30 June 2018 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

The Net Effective Discount Rate is different for each relevant time period of the yield curves' various durations and therefore the Net Effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2018 of 7.36%. The next salary increase was assumed to take place on 01 July 2019.

In addition to the normal salary inflation rate, we assumed the following promotional salary increases:

Promotional Salary Increase Rates

Age Band	Promotional Increase
20 - 24	5%
25 - 29	4%
30 - 34	3%
35 - 39	2%
40 - 44	1%
45 and over	0%

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Figures in Rand	2018	2017
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15. Provisions (continued)

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Withdrawal Decrements

A table setting out the assumed rates of withdrawal from service is set out below:

Age Band	Withdrawal Rate Males	Withdrawal Rate Females
20 - 24	16%	24%
25 - 29	12%	18%
30 - 34	10%	15%
35 - 39	8%	10%
40 - 44	6%	6%
45 - 49	4%	4%
50 - 54	2%	2%
55 - 59	1%	1%
60 +	0%	0%

Membership Data

The information below is based on the membership data received from the Municipality.

Eligible male employees

Age band of employees	Number	Average annual average past service salary	Salary weighted accrued liability (Years)	Average
20 - 29	7	R 128 482	4,58	R 11 359
30 - 39	74	R 167 575	7,71	R 20 530
40 - 49	109	R 178 546	11,70	R 27 567
50 - 59	121	R 179 318	16,60	R 22 038
60 +	44	R 156 049	16,89	R 2 555
Total	352	R 172 889	13,08	R 20 951

Eligible female employees

Age band	Number of employees	Average annual average past service salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	2	R 202 840	6,11	R 15 504
30 - 39	26	R 186 088	6,85	R 18 505
40 - 49	40	R 195 912	13,43	R 30 050
50 - 59	21	R 187 361	17,58	R 23 716
60 +	8	R 221 322	31,13	R 0
Total	97	R 193 666	14,11	R 22 806

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15. Provisions (continued)

Total eligible employees

Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	9	R 145 006	5,06	R 12 280
30 - 39	100	R 172 338	7,47	R 20 004
40 - 49	149	R 183 208	12,20	R 28 233
50 - 59	142	R 180 508	16,75	R 22 286
60 +	49	R 166 706	19,97	R 2 138
Total	449	R 177 378	13,32	R 21 352

Valuation of Assets

As at the valuation date, the long service leave award liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability.

16. Revenue

Service charges	166 426 160	160 759 339
Rental of facilities	1 340 969	504 413
Interest received - consumer	23 388 189	23 662 860
Interest received - investment	1 079 324	1 856 360
Dividends received	6 497	4 751
Discount received	4 530	47 243
Recoveries	-	32 212 971
Other income	1 771 491	2 231 558
Property rates	21 196 962	19 944 537
Fines, penalties and forfeits	44 331	180 649
Government grants & subsidies	157 426 216	166 910 755
	372 684 669	408 315 436

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	166 426 160	160 759 339
Rental of facilities	1 340 969	504 413
Interest received - consumer	23 388 189	23 662 860
Interest received - investment	1 079 324	1 856 360
Dividends received	6 497	4 751
Discount received	4 530	47 243
Recoveries	-	32 212 971
Other income	1 771 491	2 231 558
	194 017 160	221 279 495

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	21 196 962	19 944 537
Fines, penalties and forfeits	44 331	180 649
Transfer revenue		
Government grants & subsidies	157 426 216	166 910 755
	178 667 509	187 035 941

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Figures in Rand	2018	2017
17. Service charges		
Sale of electricity	83 615 258	84 297 789
Sale of water	46 521 201	43 006 481
Sewerage and sanitation charges	18 530 266	16 857 600
Refuse removal	17 759 435	16 597 469
	166 426 160	160 759 339

Included in the above service charges is income forgone to the amount of R58 834 366 (2017: R49 162 647).

18. Investment revenue

Dividend revenue

Other financial assets	6 497	4 751
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Interest revenue

Bank	1 079 324	1 856 360
	1 085 821	1 861 111

19. Other income

Admin fees	43 514	37 958
Advertisement	15 240	11 879
Bad debts recovered	1 422	4 284
Burial income	535 112	398 186
Cemeteries	2 700	111 523
Connection Fees	309 417	250 082
Fees earned	472 151	537 023
Insurance claims received	8 668	86 862
Levies	373 120	726 843
Meter tampering/testing	6 580	16 207
Valuation certificates	3 567	50 711
	1 771 491	2 231 558

20. Property rates

Rates levied

Property rates	32 673 187	30 984 098
Less: Income forgone	(11 476 225)	(11 039 561)
	21 196 962	19 944 537

Nala Local Municipality

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Figures in Rand	2018	2017
20. Property rates (continued)		
Valuations		
Residential	1 383 969 309	1 383 969 309
Commercial	294 990 703	294 990 703
State	215 207 785	215 207 785
Municipal	32 259 976	32 259 976
Agriculture	2 807 609 036	2 807 609 036
Other	85 452 584	85 452 584
	4 819 489 393	4 819 489 393

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The first R80 000 of the rateable value of residential property are exempted from taxes.

A 100% rebate is granted to churches, public benefit organisations and municipal property.

Furthermore a rebate of 50% is granted to farms, 60% to sectional title properties within agricultural land and 40% to other sectional title properties

Rates are levied on an monthly basis and interest is levied on outstanding amounts.

Rates tariffs - 2018

Residential	0,00942600
SS Residential	0,00942631
SS Business	0,01885263
SS Agricultural	0,00235658
Business	0,01885263
Industrial	0,01885263
Municipal	0,00942631
Government	0,02827895
Agricultural	0,00235658
Multi purpose : Business	0,01885263
Multi purpose : Residential	0,01413947
Multi purpose : Guesthouse	0,01413947
Multi purpose : Agricultural	0,00235658
Non permitted use	0,03770526
Public benefit organisation	0,00235658
Education	0,02827895
Guesthouse	0,01413947
Crèche	0,01413947
Public workshop	0,00235658
PSI	0,00235658
Vacant	0,03770526

Nala Local Municipality

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Figures in Rand	2018	2017
21. Government grants and subsidies		
Operating grants		
Equitable share	100 124 000	108 273 000
Municipal Infrastructure Grant	1 414 950	1 414 950
Financial assistance Grant (COGTA)	5 389 079	5 514 017
Financial Management Grant	2 345 000	2 010 000
Extended Public Works Grant	1 000 000	1 000 000
	110 273 029	118 211 967
Capital grants		
Municipal Infrastructure Grant	37 231 116	25 850 586
Integrated National Electrification Programme Grant (INEP)	3 867 208	6 375 274
South African National Energy Development Institute (SANEDI) Grant	-	5 066 353
VAT on capital expenses	5 897 351	5 842 423
Local Government Sector Education and Training Authority Grant (LG SETA)	157 512	300 994
Energy Efficiency and Demand Side Management (EEDSM)	-	5 263 158
	47 153 187	48 698 788
	157 426 216	166 910 755
22. Employee related costs		
Basic	79 762 779	77 223 208
Bonus	6 324 608	6 145 126
Medical aid - municipality contributions	7 136 980	6 860 591
UIF	705 481	729 319
WCA and COID	792 980	751 711
SDL	1 078 511	1 047 939
Leave pay provision charge	403 624	1 699 494
Travel, motor car, accommodation, subsistence and other allowances	11 723 974	10 747 458
Housing benefits and allowances	185 934	181 398
Overtime payments	7 298 855	10 081 059
Temporay workers	4 520 472	3 402 153
Acting allowances	966 155	667 802
Pension	13 851 703	13 348 518
Employee benefits - costs	893 000	-
Night shift allowance	34 898	366 436
	135 679 954	133 252 212
The remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations.		
Remuneration of Municipal Manager - Mekomela BC		
Annual Remuneration	1 306 319	1 512 621
Car Allowance	106 364	125 448
Subsistence allowance	-	1 500
Leave paid out	313 613	-
	1 726 296	1 639 569
Remuneration of Chief Financial Officer - Busakwe S		
Annual Remuneration	930 328	1 075 806
Car Allowance	190 141	196 260
Subsistence allowance	3 905	3 561
Leave pay out	221 910	-
	1 346 284	1 275 627

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Figures in Rand	2018	2017
22. Employee related costs (continued)		
Remuneration of Executive Director Corporate Services - Molupe BP		
Annual Remuneration	886 939	832 128
Car Allowance	414 666	423 684
Acting allowance	40 303	42 366
Subsistence allowance	-	2 869
	1 341 908	1 301 047
Remuneration of Executive Director Infrastructure Development - Malebane K		
Annual Remuneration	-	73 658
Car Allowance	-	16 666
Leave paid out	-	143 074
	-	233 398
23. Remuneration of councillors		
Mayor	836 713	787 385
Speaker	677 531	628 083
Executive Members	1 512 890	1 561 431
Councillors	5 416 445	4 503 301
	8 443 579	7 480 200
There are 4 (2017: 4) Executive Committee Members and 17 (2017:18) Other Councillors.		
In-kind benefits		
The Mayor, speaker are full time. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor has the use of Council owned vehicles for official duties.		
The Mayor has one full-time bodyguard and one full-time driver.		
24. Depreciation and amortisation		
Property, plant and equipment	49 480 598	50 077 150
25. Impairment of assets and provision for bad debts		
Impairments		
Property, plant and equipment	-	253 918
Assets identified during the year that was not in a working condition or could not be verified and was therefore impaired.		
Trade and other receivables	55 129 317	91 115 165
Provision for bad debts on trade and other receivables that was provided for.		
	55 129 317	91 369 083
26. Finance costs		
Provisions and employee benefit obligations	2 909 261	1 943 000
Trade and other payables	4 422 360	25 952 201
Non-current borrowings	-	192
	7 331 621	27 895 393

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Figures in Rand	2018	2017
27. Bulk purchases		
Electricity	68 305 488	68 332 171
Water	43 647 652	45 397 930
	111 953 140	113 730 101
Refer to note 44 for the detail regarding the distribution losses.		
28. Contracted services		
Meter Readers	1 555 700	1 549 813
Operating Leases	3 193 688	1 913 911
Specialist Services	7 065 919	6 957 541
	11 815 307	10 421 265
29. Auditors' remuneration		
Fees	5 181 479	4 911 552
30. General expenses		
Accounts delivery cost	828 000	485 000
Administration fees	11 604	11 888
Advertising	292 592	193 984
Audit committee	30 244	42 160
Auditors remuneration	5 181 479	4 911 552
Bank charges	859 328	684 649
Cashier shortages	(1 386)	1 814
Collection cost: Incentives	211 924	73 676
Conferences and seminars	651 537	1 524 274
Consulting and professional fees	2 622 269	2 350 627
Consumables	664 531	1 008 334
Electricity	2 021 598	3 691 322
Entertainment	47 614	160 623
Fuel and oil	2 216 261	2 093 650
Accommodation	276 863	81 021
Hire of equipment	204 814	80 103
IT expenses	-	3 399
Insurance	503 796	568 942
License fees	92 951	145 928
Membership fees	1 528 851	1 344 135
Motor vehicle expenses	20 608	416
Postage and courier	885 340	820 538
Printing and stationery	859 476	1 290 422
Stock value adjustments	4 043	6 682
Project workers	1 706 088	860 278
Telephone and fax	1 191 182	1 189 859
Transport and freight	109 453	380 500
Venue expenses	1 996 638	1 628 560
	25 017 698	25 634 336

Nala Local Municipality

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Figures in Rand	2018	2017
31. Cash generated from operations		
Surplus/(deficit)	(32 646 688)	(76 810 482)
Adjustments for:		
Depreciation and amortisation	49 480 598	50 077 150
Loss on property, plant and equipment recognised	58 100	716 463
Fair value adjustments	9 996	-
Impairment deficit	55 129 317	91 369 083
Debt forgiven - DBSA	-	(32 212 971)
Movements in retirement benefit assets and liabilities	(2 585 000)	(508 000)
Movements in provisions	1 462 174	992 166
Actuarial gains and loss	(3 444 327)	(719 246)
Changes in working capital:		
Inventories	323 923	640 722
Receivables from exchange transactions	(66 630 956)	(63 798 562)
Receivables from non-exchange transactions	(3 198 667)	1 087 443
Payables from exchange transactions	43 639 269	71 752 489
VAT	(4 685 194)	(21 304 909)
Unspent conditional grants and receipts	(4 694 625)	6 544 129
Consumer deposits	265 321	405 166
Employee related payables	3 895 272	2 608 691
	36 378 513	30 839 332

32. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	94 652 913	94 652 913
Cash and cash equivalents	-	1 852 228	1 852 228
Other financial assets	111 717	-	111 717
Other receivables from non-exchange transactions	-	1 412 712	1 412 712
	111 717	97 917 853	98 029 570

Financial liabilities

	At amortised cost	Total
Trade payables from exchange transactions	421 535 446	421 535 446
Consumer deposits	2 698 880	2 698 880
	424 234 326	424 234 326

Nala Local Municipality

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Figures in Rand	2018	2017
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Financial instruments disclosure (continued)

2017

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	78 225 678	78 225 678
Other receivables from non-exchange transactions	-	2 044 327	2 044 327
Cash and cash equivalents	-	8 270 644	8 270 644
Other financial assets	121 713	-	121 713
	121 713	88 540 649	88 662 362

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	377 445 231	377 445 231
Consumer deposits	2 433 559	2 433 559
	379 878 790	379 878 790

33. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	8 006 420	18 270 605
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Total capital commitments

Already contracted for but not provided for	8 006 420	18 270 605
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This committed expenditure relates to property, plant and equipment and will be financed by existing cash resources and MIG Grants funds.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	466 254	692 521
- in second to fifth year inclusive	-	466 254
	466 254	1 158 775

The municipality utilises vehicles from the Free State Fleet Management trading entity (FSFM) and is billed monthly for the right to use the vehicle (daily tariff) as well as the usage (usage tariff) there of.

The leases are also treated as 3- and 4-year leases based on the type of asset.

Nala Local Municipality

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Figures in Rand	2018	2017
34. Contingencies		
Patula Balekane Joint Venture issued summons against the Municipality for payment in respect of outstanding payments due for construction work at the sewerage works in Wesselbron to the plaintiff of an capital amount off R2.6mil plus interest (+/- R2.1mil) and legal costs(+/- R300 000).	5 000 000	4 000 000
SI Swartbooi was previously dismissed after disciplinary proceedings were instituted and the matter has been escalated to the Labour Court in Johannesburg and awaiting judgemental to be delivered.	3 000 000	3 000 000
Labour dispute - Nala vs Lekitlane matter was referred to labour court.	-	150 000
Labour dispute - Nala vs Majoe matter was referred to labour court.	150 000	-
	8 150 000	7 150 000

35. Related parties

Relationships

Accounting Officer

Members of key management

Mr BC Mokomela

Refer to note 22

36. Prior period errors

Property, Plant and Equipment adjusted due to the asset register allocation adjusted from work in progress, repairs and maintenance to the asset register

Payables from exchange transactions was adjusted with invoices received in the current year dated in prior period.

Errors that was identified in the 2016/17 financial period in the current year was corrected against retained surplus.

Receivables from exchange transactions and VAT adjustment was made to correct the services charges on electricity sales due to estimation changes.

The correction of the errors results in adjustments as follows:

Statement of financial position

Increase / (decrease) in receivables from exchange transactions	(1 930 761)
Increase / (decrease) in VAT receivable	261 538
Increase / (decrease) in property, plant and equipment	(20 376 183)
(Increase) / decrease in payables from exchange transactions	(110 679)
(Increase) / decrease in retained surplus through profit and loss 2017	595 774
	(21 560 311)

Statement of Financial Performance

(Increase) / decrease in property rates	4 816
(Increase) / decrease in service charges	1 672 854
(Increase) / decrease in employee related costs	18 567
(Increase) / decrease in general expenses	8 962
(Increase) / decrease in repairs and maintainance	20 394 362
(Increase) / decrease in depreciation and amortisation	(126 986)
(Increase) / decrease in bulk purchases	(412 264)
	21 560 311

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36. Prior period errors (continued)

Cash flow statement

Cash flow from operating activities

Net movement on receipts	-	74 960
Net movement on payments	-	(211 568)
	-	(136 608)

Cash flow from investing activities

Net movement on property plant and equipment	-	136 608
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37. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	421 535 446	-	-	-
At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	377 445 231	-	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management.

Consumer balances outstanding for more than three months are reviewed for impairment and provided for as bad debts as applicable.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2018	2017
Cash and cash equivalents	1 852 228	8 270 644
Receivables from exchange transactions	94 652 913	78 225 678
Receivables from non-exchange transactions	1 412 712	2 044 327
Other financial assets	111 717	121 713

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37. Risk management (continued)

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

38. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had accumulated surplus of R 1 476 112 652 and that the municipality's total assets exceed its liabilities by R 1 476 112 652. The municipality's current liabilities exceed its current assets by R 283 522 542. The municipality incurred a deficit of R 32 646 688 for the year (2017: R 76 810 481).

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officers continue to procure funding for the ongoing operations for the municipality as the current and liquidity ratio state that it will not be able to pay their short term liabilities as they come due unless funds are received to increase the current assets of the municipality. The solvency ratio of the municipality did well increase as other long term liabilities was settled during the year.

The main ratio in this regard is as follow:	2018	2017
Solvency ratio	15.08%	15.57%

39. Unauthorised expenditure

Opening balance	736 336	97 795 332
Unauthorised expenditure - current year	2 888 285	79 619 678
Less: Amounts written off - prior year	-	(97 795 332)
Less: Amounts written off - current year	-	(78 883 342)
	3 624 621	736 336

40. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure opening balance	1 230 167	15 995 104
Interest	4 998 183	25 134 894
Prepaid electricity sales - loss	-	959 632
Arbitration	86 918	-
Less: Amounts written off	-	(40 859 463)
	6 315 268	1 230 167

Interest is charged on arrear accounts by the creditors due to the fact that late payments are made to the creditors.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
41. Irregular expenditure		
Opening balance	13 277 585	17 602 291
Add: Irregular Expenditure - current year	1 477 702	3 130 247
Add: Irregular expenditure - Identified after year-end	43 854 632	13 277 585
Less: Amounts written off	-	(20 732 538)
	58 609 919	13 277 585

	Chief Financial Officer	Municipal Manager	Total
Irregular expenditure incurred in current year	33 104	23 457	56 561
Irregular expenditure recovered/transferred to receivables for recovery	(33 104)	(23 457)	(56 561)
	-	-	-

The following irregular expenditure occurred due to an error in the payment of the Municipal Manager and Managers reporting to the Municipal Manager in accordance to section 11 of the Government Gazette No: 42023.

The full extent of the irregular expenditure disclosed above is still to be investigated and confirmed.

42. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	-	829 825
Current year subscription / fee	905 000	1 325 870
Amount paid - current year	(1 485 421)	(2 155 695)
	(580 421)	-

Audit fees

Opening balance	565 630	11 262
Current year fee	5 907 226	4 910 656
Interest charged	128 812	77 843
Interest written off	(64 050)	-
Amount paid - National Treasury Grant	(1 709 897)	-
Amount paid - current years	(4 332 091)	(4 434 131)
	495 630	565 630

PAYE and UIF

Opening balance	1 358 728	-
Current year subscription / fee	18 268 289	17 780 829
Amount paid - current year	(18 271 318)	(16 422 101)
	1 355 699	1 358 728

Pension and Medical Aid Deductions

Opening balance	2 931 621	50 764
Current year subscription / fee	34 243 929	32 852 174
Amount paid - current year	(34 258 202)	(29 971 317)
	2 917 348	2 931 621

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
42. Additional disclosure in terms of Municipal Finance Management Act (continued)		
VAT		
VAT receivable	43 586 960	38 901 766

VAT output payables and VAT input receivables are shown in note 5 .

All VAT returns have been submitted by the due date throughout the year.

Notes to the Annual Financial Statements

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42. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had accounts outstanding at 30 June 2018:

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Khati S.M.	1 186	14 346	15 532
Leburu P.K.	424	-	424
Mabaso M.K.	497	-	497
Mafojane P.W.	495	-	495
Makhooe N.E.	734	-	734
Makunye A.M.	677	-	677
Marumule M.S.	350	-	350
Mashiya M.N.	424	-	424
Mogoje T.A.	12 740	-	12 740
Mohloare T.A.	350	-	350
Mokete X.E.	365	-	365
Molutsi T.L.	308	-	308
Moshane Z.M.	942	147	1 089
Nanyane L.J.	10 948	46 961	57 909
Ngece T.F.	1 895	279	2 174
Ntseki M.L.	1 392	17 636	19 028
Reed D.	2 855	-	2 855
Sebate K.E.	669	-	669
Tau R.T.	2 970	104 248	107 218
Mtombeni J.	740	-	740
Jika N.E.	52	-	52
Mabeleng M.P.	1 279	10 497	11 776
Bothma H.J.	2 079	-	2 079
	44 371	194 114	238 485

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Khati S.M.	10 269	7 119	17 388
Leburu P.K.	696	-	696
Mabaso M.K.	445	-	445
Mafojane P.W.	637	409	1 046
Makhooe N.E.	317	-	317
Makunye A.M.	1 724	6 274	7 998
Marumule M.S.	784	10	794
Mashiya M.N.	1 111	-	1 111
Mogoje T.A.	16 138	6 522	22 660
Mohloare T.A.	784	181	965
Mokete X.E.	981	4 373	5 354
Molutsi T.L.	2 260	14 203	16 463
Moshane Z.M.	1 345	345	1 690
Nanyane L.J.	11 430	49 397	60 827
Ncheche M.M.	731	1 260	1 991
Ngece T.F.	913	5 677	6 590
Ntseki M.L.	8 895	45 332	54 227
Reed D.	1 701	-	1 701
Sebate K.E.	1 026	270	1 296
Tau R.T.	4 376	128 677	133 053
	66 563	270 049	336 612

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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43. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The following expenses relate to deviations that the accounting officer approved

Emergencies	1 256 784	2 224 933
Sole suppliers	149 081	1 284 403
	1 405 865	3 509 336

44. Distribution Losses

Electricity - Rand		
Sold	88 187 360	85 179 760
Purchased	68 345 518	68 716 373
Electricity - Units		
Sold	70 852 931	70 166 056
Purchased	75 464 275	76 080 584
Electricity - Tariff		
Sold	1.24	1.21
Purchased	0.91	0.90
Electricity - Losses		
Units	4 611 344	5 914 528
Rand value	4 176 343	5 342 032
Percentage	6.11%	7.77%
Water - Rand		
Sold	48 917 151	45 913 977
Purchased	43 649 046	45 398 628
Water - Units		
Sold	2 692 459	2 881 102
Purchased	4 263 570	4 711 170
Water - Tariffs		
Sold	18.17	15.94
Purchased	10.24	9.64
Water - Losses		
Units	1 571 111	1 830 068
Rand value	16 084 525	17 635 232
Percentage	36.85%	38.85%

Notes to the Annual Financial Statements

Figures in Rand

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45. Budget differences

Notes on budget variances

Service Charges: There was a reduction as result of the the approved amounts being lower than the budget projections.

Rental of Facilities and equipment: More facilities rented out than anticipated.

Interest received - consumer: There was a reduction as result of the the approved amounts being lower than the budget projections and a slight pickup on collections.

Interest Received - Investment: A lower interest rate received on investments.

Dividends Received: Due to the good performance of Senwes shares.

Property rates: There was a reduction as result of the the approved amounts being lower than the budget projections.

Fines, Penalties and Forfeits: The unicity tried to meet the obligations.

Government Grants and Subsidies: More grants were given to the municipality than bugeted.

Personnel: Due to a number of personnel who resigned and retired.

Depreciation and amortisation: The bulk infrastructure projects fell behind schedule that the municipality wanted to complete during the year.

Impairment loss: As a result of old assets of which the condition was deteriorating.

Finance cost: More payments made to larger creditors.

Repairs and maintainance: A reduction on spending because of prioritising expenditure.

Bulk Purchases: Sedibeng and Eskom tariffs were being phased in.

Contracted services: There is reduction of the contracted services.

General expenses: The change is due to cost containment that was implemented.

Nala Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

46. New standards and interpretations

46.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations

Notes to the Annual Financial Statements

46. New standards and interpretations (continued)

GRAP 12 (as amended 2016): Inventories

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories (IPSAS 12) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12)
- IPSASB amendments: To align terminology in GRAP 12 with that in IPSAS 12. The term "ammunition" in IPSAS 12 was replaced with the term "military inventories" and provides a description of what it comprises in accordance with Government Finance Statistics terminology

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality early adopted this amendment for the first time in the 2018 annual financial statements.

GRAP 16 (as amended 2016): Investment Property

Amendments to the Standard of GRAP on Investment Property resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IAS 40 on Investment Property (IAS 40) as a result of the IASB's amendments on Annual Improvements to IFRSs 2011 – 2013 Cycle issued in December 2013.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IASB amendments: To clarify the interrelationship between the Standards of GRAP on Transfer of Functions Between Entities Not Under Common Control and Investment Property when classifying investment property or owner-occupied property.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality early adopted this amendment for the first time in the 2018 annual financial statements.

GRAP 17 (as amended 2016): Property, Plant and Equipment

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; To clarify acceptable methods of depreciating assets; To align terminology in GRAP 17 with that in IPSAS 17. The term "specialist military equipment" in IPSAS 17 was replaced with the term "weapon systems" and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the amendment is for years beginning on or after 01 April 2018.

Notes to the Annual Financial Statements

46. New standards and interpretations (continued)

The municipality early adopted this amendment for the first time in the 2018 annual financial statements.

GRAP 31 (as amended 2016): Intangible Assets

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015.

The most significant changes to the Standard are:

- General improvements: To add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and To clarify acceptable methods of depreciating assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality early adopted this amendment for the first time in the 2018 annual financial statements.

46.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

Notes to the Annual Financial Statements

46. New standards and interpretations (continued)

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - the entity is controlled or jointly controlled by a person identified in (a); and
 - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

Notes to the Annual Financial Statements

46. New standards and interpretations (continued)

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 21 (as amended 2016): Impairment of non-cash-generating assets

Amendments to the Standard of GRAP on Impairment of Non-cash Generating Assets resulted from changes made to IPSAS 21 on Impairment of Non-Cash-Generating Assets (IPSAS 21) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

GRAP 26 (as amended 2016): Impairment of cash-generating assets

Amendments Changes to the Standard of GRAP on Impairment of Cash Generating Assets resulted from changes made to IPSAS 26 on Impairment of Cash-Generating Assets (IPSAS 26) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

46. New standards and interpretations (continued)

GRAP 34: Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Notes to the Annual Financial Statements

46. New standards and interpretations (continued)

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the interpretation.

The impact of the standard is set out in note Changes in Accounting Policy.

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2019 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 19: Liabilities to Pay Levies

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as

Notes to the Annual Financial Statements

46. New standards and interpretations (continued)

identified by the legislation;

- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the interpretation.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme

The objective of this guideline: Entities in the public sector are frequently involved in the construction of houses as part of government's housing policy, implemented through the national housing programme, which is aimed at developing sustainable human settlements. The Housing Act, Act No. 107 of 1997 provides information about the housing programmes that fall within the scope of the national housing programme. Concerns were raised by preparers about the inconsistent accounting applied to housing arrangements undertaken by entities under the national housing programme. Different accounting may be appropriate where there are differences between the terms and conditions of arrangements concluded by entities. However, under housing arrangements that are undertaken in terms of the national housing programme, there are common features and issues that need to be considered. As a result, the Board agreed to develop high-level guidance for arrangements undertaken in terms of the national housing programme.

It covers: Background to arrangements undertaken in terms of the national housing programme, Transactions that affect the accounting of housing arrangements, Consider whether the municipality undertakes transactions with third parties on behalf of another party, Accounting by municipalities appointed as project manager, Disclosure requirements, Accounting by municipalities appointed as project developer, Accounting for the accreditation fee, commission, administration or transaction fee received, Land and infrastructure, Conclusion and Application of this Guideline to existing arrangements.

The effective date of the guideline is not yet set by the Minister of Finance.

The municipality expects to adopt the guideline for the first time when the Minister sets the effective date for the guideline.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

46.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods but are not relevant to its operations:

Notes to the Annual Financial Statements

46. New standards and interpretations (continued)

GRAP 18 (as amended 2016): Segment Reporting

Amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the amendment is for years beginning on or after 01 April 2019.

The municipality expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 35: Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 36: Investments in Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 37: Joint Arrangements

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

Notes to the Annual Financial Statements

46. New standards and interpretations (continued)

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 110: Living and Non-living Resources

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 110 (as amended 2016): Living and Non-living Resources

Amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets

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46. New standards and interpretations (continued)

- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the amendment is for years beginning on or after 01 April 2020.

The municipality expects to adopt the amendment for the first time in the 2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

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Figures in Rand

2018

2017